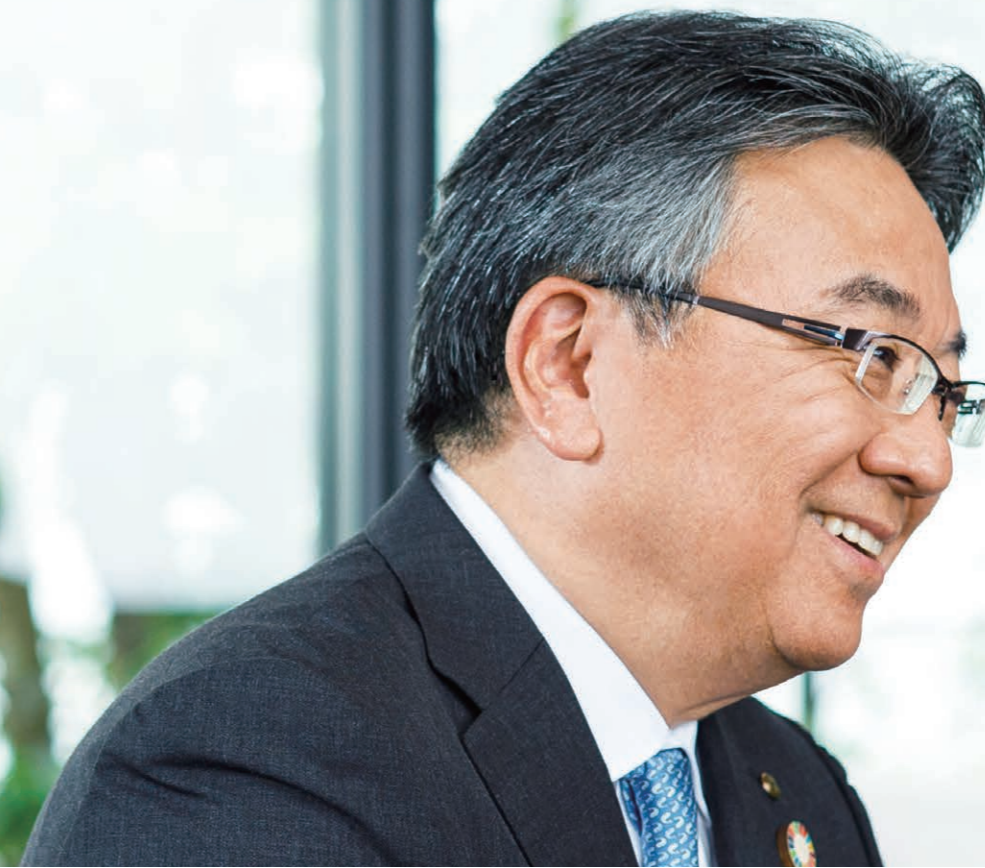


Addressing Social Issues Through Our Business, We Create the Value Needed When Emotions Are Valued

Yuji Okuma

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The Peak of Redevelopment in Our Home, Shibuya

Shibuya Station, a leading Tokyo train terminal, is used by about 3.3 million people per day.

The landscape around the station is undergoing a transformation. From SHIBUYA SOLASTA, our new headquarters at the top of Dogenzaka, you can clearly see the cone-shaped topography of Shibuya. Large-scale redevelopment, said to be a once-in-a-100-year chance, is progressing around the station, located right at the center of the cone-shaped valley, and the multi-year construction is reaching its peak. We are focusing on our redevelopment business, with SHIBUYA SOLASTA completed in March 2019, where we created a new Group headquarters from August. In October, SHIBUYA FUKURAS, a large-scale multi-purpose facility, will be completed, hosting a new Tokyu Plaza Shibuya on the commercial floor and opening in December.

We've called Shibuya home for many years, and increasing the area's international competitiveness is an important initiative in the national interest. Since the urban development of Den-en Chofu, we have continued to inherit our Challenge-oriented DNA and gather general Group ability, and we hope to contribute to the long-term improvement of the overall value of the area.

First, the Shibuya redevelopment was a concept thought up and drafted by Keita Goto, the first chairman of the TOKYU LAND CORPORATION. Chairman Goto, who established the Company in 1953, said the following at a founding establishment meeting the following year.

"I hope to contribute to the maintenance and development of the area centered around Shibuya, building skyscrapers in 4 or 5 locations around Shibuya Station."

It seems as if his statement was a prediction of today's redevelopment. Through this speech, Chairman Goto touched on Shibuya's general redevelopment plan, described how Tokyo and Shibuya are responsible for the transportation artery, and then spoke passionately about a specific urban design idea that included the desire for a corporation to carry out the development that would act as the central

nervous system and capillaries of the area, the building of an underground shopping center and bus terminal to eliminate above-ground congestion, and the need for financial centers and buildings occupied by branches of financial institutions. Looking back at his words makes me feel that I must inherit this incredibly wonderful insight.

Expanding Urban Development from Shibuya to the Greater Shibuya Area

As members of Tokyu Group, we are moving forward with wide-scale urban development known as the Greater Shibuya Area, widening the scope of development and integrally connecting the unique areas of Aoyama, Omotesando, Harajuku, Ebisu, and Daikanyama, while also working to realize the Entertainment City Shibuya concept. ▶ See page 22, "The Challenges of the Greater Shibuya Area Concept"

The attractive Greater Shibuya Area encompasses diverse urban functions for work, life, leisure, education, rest, creation, and more, and we believe it has great potential for the future. It has the lowest vacancy rate and the highest standard for average rent in the five central wards of Tokyo. Rent is steadily increasing, and I hope that you can see how Shibuya is a promising area (Figure 1. Shibuya's Superiority). We offered a public stock offering in October 2018 to further promote continuous investments to the Greater Shibuya Area. Some ¥350 billion's worth of investment plans were established through fiscal 2023, offering strengthening of the leasing business base and improvement of net asset value (NAV). The business environment that we are surrounded by is steadily transitioning, and among this transition, there is an extremely high standing with Shibuya's superiority. There were reports of an overcapacity of offices within central Tokyo since 2018, but this ended as a baseless fear, and office tenant contracts were signed ahead of the 2019 completion of SHIBUYA SOLASTA and SHIBUYA FUKURAS.

Expectations are high among investors in Shibuya, a gathering place for people from around the world, and we are working to increase the attractiveness of global Tokyo centered around the Greater Shibuya Area, an important base, through promoting projects with

high added value in the main areas of the capital.

Aiming for Further Increases in Shareholder and Corporate Value

We completed the 2nd year of our Medium-Term Management Plan 2017-2020, reaching a turning point. Fiscal 2018 resulted in increases in revenues and profit compared to the previous year, and we were able to reach a new record profit, beating the previous record set in the first year of the Plan.

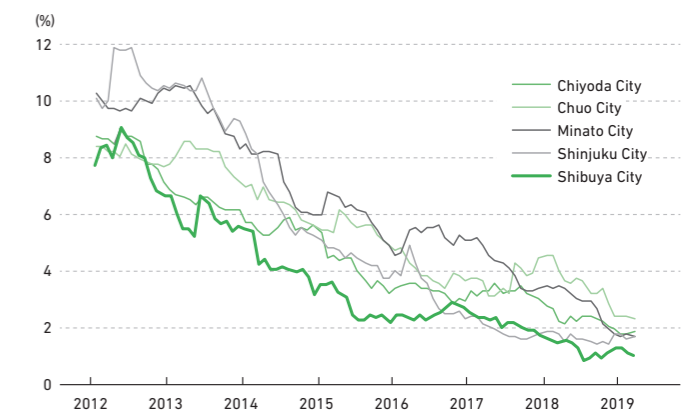
Looking back at the first half of the Medium-Term Management Plan, we were able to make good progress on plans centered around large-scale projects, while steadily moving forward with the three growth strategies we defined: Urban development that proposes new lifestyles, Expansion of the scope of cyclical reinvestment business, and Reinforcing stock utilization. In addition to SHIBUYA SOLASTA and SHIBUYA FUKURAS, at the Takeshiba District Development Plan (tentative name) where development continues in the Takeshiba and Hamamatsucho areas, the SoftBank Group, one of the largest group companies in Japan, has decided to use offices in our largest office building yet, with contracts signed for all floors ahead of completion in fiscal 2020.

Based on transitioning results that exceeded expectations and the holding of a public stock offering, we readjusted the Medium-Term Management Plan in May 2019. There are two areas that we readjusted. First, we upwardly revised the targets set in fiscal 2020, the final year of the Plan. Second, we added earnings per share (EPS) and return on equity (ROE) as new indicators from the perspective of capitalization strategy. ▶ See page 32, "On Readjusting Our Medium-Term Management Plan"

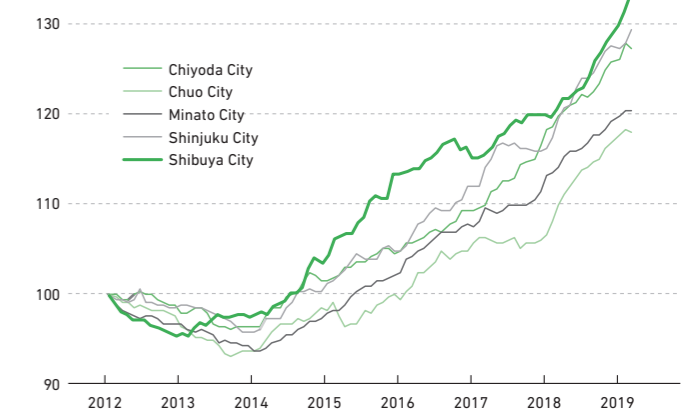
We recognize that our stakeholders strongly desire an increase in corporate value over shareholder value. Moving forward, we are aiming to grow EPS and increase ROE through strengthening our earning capacity while also maintaining financial discipline as a fundamental policy towards improving shareholder and corporate value. ▶ See page 44, "Financial Capital Strategy"

Figure 1. Shibuya's Superiority

Decline in Vacancy Rate (among 5 central wards of Tokyo)



Increase in Average Rent* (among 5 central wards of Tokyo)



*Value indexed as 100 as of January 2012

Source: Miki Shoji Co., Ltd.

From Eiichi Shibusawa's *Gapponshugi* to Darwin's Theory of Evolution

I'd like to once again review our history. Our origins lie with Den-en Toshi Company, established in 1918 by Eiichi Shibusawa and others. Den-en Chofu was developed, combining the merits of nature and the city based on the English-originated Den-en Chofu Urban Concept, which was developed as urbanization and population inflow were advancing in Tokyo and as people began to see signs of a housing shortage. Since then, we have inherited Eiichi Shibusawa's Challenge-oriented DNA for over more than 100 years, facing a variety of social issues head on.

The attitude of working to solve social issues through business activities is exactly the *Gapponshugi* philosophy that Eiichi Shibusawa advocated for. *Gapponshugi*, which makes the pursuit of profit a mission while promoting businesses that gather appropriate personnel and financing, differentiates itself from management that monopolizes businesses and profits and forms financial groups. *Gapponshugi* idealizes overall wealth through synchronizing private and public profits and long-term interest formation. We have certainly inherited this recent management style that considers both economic value and social value and strives for sustainability.

I have returned to the *Gapponshugi* philosophy, especially in today's world with harsh environmental changes, and I think we need long-term management rooted in high aspirations for solving social issues. Our history and the later expansion of business tells the story of how we have continued to be deemed necessary by society, and we try to always be aware of the public side of our corporation. I treasure Charles Darwin's theory of evolution as a way to connect the next generation with our Challenge-oriented DNA. I was influenced by Darwin after reading his book, *On the Origin of Species*, while in university.

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change."

I think that an existential tip for business management can be found in this concept said to be offered by Darwin. Darwin teaches us how important it is to clearly understand the changes to our environment and the needs of society, and to flexibly respond to those changes, in addition to corporations surviving long-term.

The businesses and services that we have developed are quite diverse. This is a result of a history of continuing to evolve while striving for the public benefit, and is a testament to the fact that we have responded to society's various needs according to the times.

When taking another look back at our history from this viewpoint, you can see that we began with the Residential business, including new housing development and sales of condominiums. If the period when we expanded into a value chain through our Property Management and Real Estate businesses was the dawn of our business, then you can say that the period after that where we have expanded our business fields to the real estate investment business centered around office buildings, commercial facilities, and other urban development was our developing period. And now, I think it may be time to seriously consider how we ought to evolve our future business at a time when technological innovations are rapidly progressing. ▶ See page 10, "Creating Value Alongside Social Issues"

Overcoming Dangers by Quickly Understanding Changes

I treasure future-oriented management that isn't afraid of change, and this may largely depend on my own personal career.

In the early 1990's, the bubble economy burst, and the real estate industry faced great danger. At that time, I had been made a supervisor of new housing development, something I had wanted since entering the Company. I thought about ways to make a profit amidst a time when business financing was strict, and arrived at the concept of conversion into securities, something that had been in the news in the United States. at the time. We immediately converted real estate into securities in Japan, and were able to create a path connected to rapid growth of our leasing business by applying this scheme to office buildings, etc.

Afterwards, we were able to overcome each danger by constantly setting our eyes on the future, quickly understanding changes, and then flexibly adapting to those changes as our company itself underwent large changes, including restructuring after the Lehman Brothers' bankruptcy and re-organization into a holding company. When considering the history of great changes in the structure of the industry over a 10-year span, I am convinced that it is important to understand environmental changes with a long-term perspective for the future.

In Darwin's theory of evolution, in addition to the need for environmental adaptability as humans evolved, it is explained that diversity is required to continue evolving. Evolution is the history of branching, with individuals with characteristics that differ from others surviving and evolving in a variety of ways amongst the repetition of natural selection. The spread of our business is a lineage of evolution that has surely repeatedly branched off, and you could say that the aggregate of our variously evolved businesses has created a unique group unlike any other.

Value Creation is Born from Dialogue with Customers

In addition to our unique Group history, we also are different from other comprehensive real estate companies in that we have many businesses where we connect directly with our customers. Because there are a wide variety of points of contact with customers, from our operations businesses, such as commercial facilities and hotels, to our retail business, such as TOKYU HANDS, we carefully observe changes in society and customer needs on-site, and this is connected to the creation of new value. One of my theories is that value creation is born from dialogue with customers.

Our cultivated strengths can be explained in three large categories. ▶ See page 12, "Our Three Core Strengths"

The first is our Diverse Assets and Customers. We are involved in a wide range of assets under the safe and trustworthy TOKYU brand, offering a variety of services to meet the life stages of our customers, from children to seniors. The second is a Corporate Culture that Produces Unique Businesses. Our progress from constantly looking ahead at the needs of society and creating unique businesses, such as our resort business for enjoying leisure time and the Tokyu Hands business which has expanded true DIY activities, is rooted as the Group's culture in all of us. The third is our Highly Specialized Personnel and Knowhow. Our approximately 30,000 employees*1 from over 100 companies in the Group participate actively using their own strengths. We also work towards creating new value while our highly specialized personnel share their knowhow within the Group.

Starting in the real estate business, our business fields have gradually expanded amid the changing times. In particular, lifestyles and values have become more diversified and city dwellers' needs have become more fragmented, leading to a time where the role of real estate as requested by customers and society is greatly changing. Among this changing environment, we are creating new value in the local area and in society by making use of our three core strengths.

The idea of creating lifestyles is a key point in this value creation. We are working to solve a variety of social issues through proposing new Home Styles, new Work Styles and new Play Styles as a corporate group that creates and proposes lifestyles that go beyond the bounds of physical structures. ▶ See page 14, "Unique Value Creation"

The Key to Lifestyle Creation is How You Spend Time

I'd like to explain the concept of lifestyle creation that we deal with, broken down into three evolutionary phases (Figure 2. The Evolution of Lifestyle Creation). Involved in developing the comprehensive real estate industry, we began our business with real estate development, namely with buildings. We first worked with residences. We offered the value of housing to our customers through the development and sales of condominiums and detached houses. Our business, which began with buildings, later spread to commercial facilities, hotels, and resort facilities, including golf courses and ski resorts. Office buildings, which raised our profits through rent payments, were added as the third pillar (Lifestyle Creation 1.0).

From there, we expanded the boundaries of the real estate industry towards management, real estate, and operations centered around the building, and created new added value that didn't end with sales. Before long, the need for non-material services increased in addition to material services, together with the process of the Japanese economy becoming richer, and we began to propose new Home Styles based on the needs of the times, making use of the building. In the same way, commercial and resort facilities brought about a change from consumption of things to consumption of services, and we sought to propose new Play Styles. In the wellness field, which covers the leisure, senior, and health fields, we offer a wide range of support services to allow people from every generation to live a full and lively life. We are evolving to be able to propose new Work Styles, as our office buildings have been subject to work-style reform and health management. We have expanded our businesses and our profit model has evolved through creating solutions by utilizing each of our buildings (Lifestyle Creation 2.0).

We are now approaching a new phase in the lifestyle creation that we produce. By accepting the diversification of lifestyles and sense of values, the evolution of technology, and more, the barriers are lowered to Home Styles, Work Styles, Play Styles. For example, from the view-

point of workers, the old work-life balance concept is transforming into a work-as-life concept. Rather than placing work or one's personal life over the other, this idea considers work as one part of one's life, and is a lifestyle that realizes one's ideals. Following the increase in freelancers who have no restrictions on working hours or location, so-called "workcations" combining work and vacation have started to become commonplace. The problems faced by modern society, including work-style reform, childcare and nursing issues, and increases in life expectancy, all overlap into the three areas, and I feel like these issues require lifestyle creation that fuses all manners of everyday life together (Lifestyle Creation 3.0).

From among the three areas, I think that we are able to show our unique abilities to the max in Play Styles. We have strength in having developed commercial and resort facilities over many years, and we are excellent in understanding business from the viewpoint of Play Styles, including management and operation.

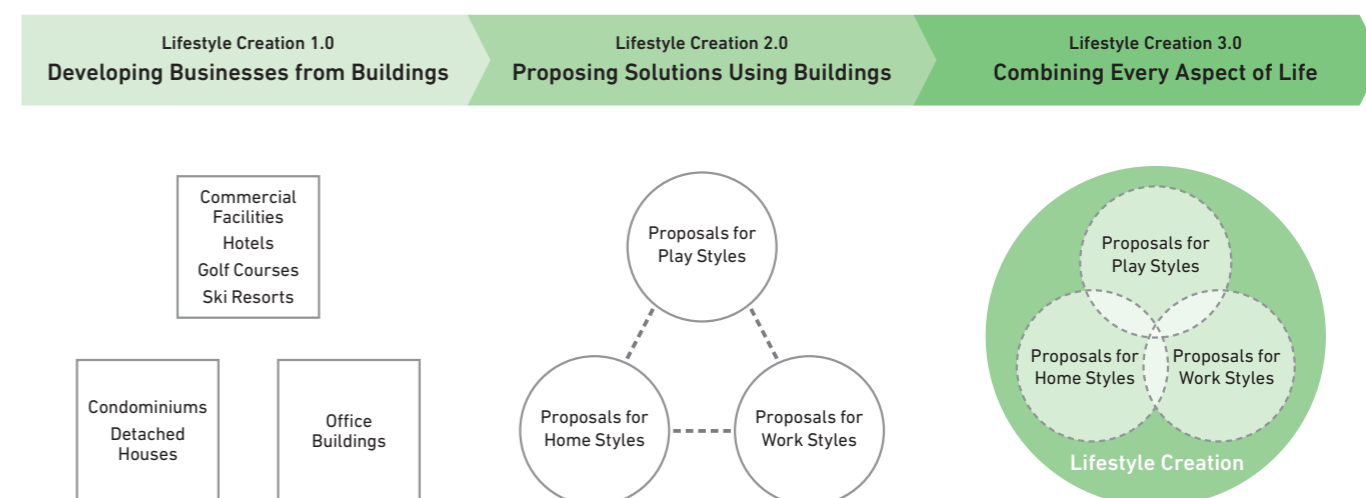
I feel that we may succeed in future business with further development of ways of spending time. Expanding the cycle of lifestyle creation that utilizes ways of spending time is what we are aiming for and therefore we can be particular about services offered for all ages (value creation based on time) and in all areas (value creation based on space), developing a wide range of businesses.

Realizing a Sustainable Society and Sustainable Growth

The evolution of our lifestyle creation was born out of our Challenge-oriented DNA, which works to solve social issues through our business. If we reexamine the *Gapponshugi* philosophy proposed by Eiichi Shibusawa, we see that it is our mission to continue seeking sustainable growth through lifestyle creation. We established a Sustainability Vision and a Sustainability Policy in fiscal 2018 to show our Group stance on sustainability. ▶ See page 6, "Who We Want To Be"

Environmental problems and the energy crisis are both a risk and a chance for our Group, while also being long-term issues that require efforts on a global scale. As members of the global society, we are contributing to the achievement of the Sustainable Development Goals (SDGs) for 2030, adopted at the UN summit in 2015. We are actively developing new measures in 2019 to combat climate change, including support of the Task Force on Climate-related Financial Disclosures (TCFD)'s proposals and participation (TOKYU LAND CORPORATION) in

Figure 2. The Evolution of Lifestyle Creation



the international RE100 initiative, which aims for business operations with 100% renewable energy.

In our Medium-Term Management Plan, we offered ESG Management as an initiative for strengthening our management foundation that supports our growth strategy. We established four themes – the environment, work-style reform, social needs, and corporate governance – from the viewpoint of ESG (Environment, Society, and Governance), and in addition to establishing KPI goals for fiscal 2020, we are progressing on initiatives aimed at achieving these goals while also following the PDCA cycle. ▶ See page 48, “ESG Management”

Regarding corporate governance, we are improving our management efficiency and continuing to strengthen our governance system towards creating a healthy and highly-transparent management system. There was a surge in social requests in fiscal 2018, including movements towards amending the Company Act, and we established corporate governance guidelines among other things. We also had our first female outside director, allowing us to have diverse debates over the long term. ▶ See page 51, “Corporate Governance”

Establishing Strategies to Continue Creating Value in an Era of VUCA

We are living in an era of VUCA*2 today, full of unpredictable elements. Our readiness determines whether we are threatened by this or take it as an opportunity. I think that our desire to be a corporate group that continues to create value will become an important anchor as a compass for management during these uncertain, violently changing times. Looking past fiscal 2021, we will begin to formulize discussions aimed at establishing the next Medium-Term Management Plan to further pursue our vision.

We in the comprehensive real estate industry will continue to

increase the depth of the leasing business through high added value urban development. But the issue of how to incorporate rapid technological advances in our business must be considered seriously. It is also said that we will reach the singularity*3, where AI surpasses human intelligence, in 2045. In response to these changes, I think it will become important in how we produce added value through collaboration including innovative technology between existing businesses and partners outside the Company.

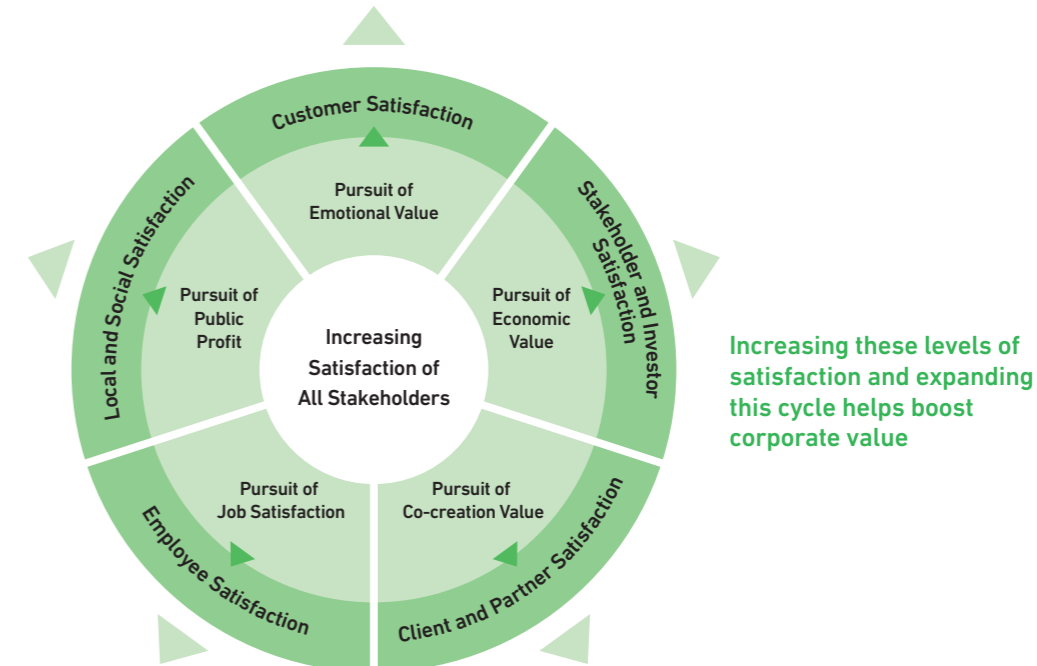
New business models are emerging in the various fields that surround our businesses. In the real estate industry, platformer-style companies operating co-working spaces and offering places for community-building have emerged, and cloud funding has caught the attention of even the real estate financing world. There are also industries with rapidly changing competitive environments due to innovations, and even in the real estate industry, there is a considerable possibility that players from completely different industries may compete through the advancement of real estate tech.

In the Japanese domestic market, with its decreasing birthrate and aging population, the labor shortage issue due to a decrease in the working age population is becoming apparent. For us, with our strengths in operations and management, this is an unavoidable issue. Although the future is highly uncertain, it is predicted that there will be an increase in single-person households and empty houses and a population drain from regional areas. I think it is important to carefully understand these changes.

In addition to working towards operational efficiency and increases in assets in various ways, including the use of robotic process automation (RPA), we are making use of innovative technology and creating synergies through corporate venture capital (CVC). Even so, we have only just begun these initiatives. We are searching for the seeds for growth and are creating the next growth strategy, while reexamining



Figure 3. The Five Types of Satisfaction that Raise Corporate Value



the opportunities and risks surrounding our business in order to contribute to the realization of Society 5.0*4, a new society that will arrive after the information society, as put forward by governments through the creation of smart cities.

Management that Speaks to the Sympathies of All Stakeholders

Finally, I'd like to explain what I value with the Group's management. It's the improvement of each stakeholder's satisfaction. This is the management philosophy that I have arrived at through all my experience.

Pursuing public benefit for regional and social satisfaction while also pursuing economic value for stakeholder and investor satisfaction. Balancing both of these while synchronizing private and public benefit is the concept of *Gapponshugi*, which could be called our origin. Through pursuing emotional value through our strong lifestyle creation for customers, co-creation value that fosters further value for our clients and partners, and joy in working and job satisfaction for our employees, we can raise satisfaction levels for all these groups. I believe that increasing these five types of satisfaction and expanding this cycle is connected to increasing namely corporate value (Figure 3. The Five Types of Satisfaction that Raise Corporate Value).

I think that corporations, beyond being public institutions in society, should pursue universal satisfaction, without focusing solely on specific stakeholders, while constantly being aware of the viewpoints of commonality and utility. Said another way, this is perhaps management that speaks to our sympathies. Society cannot be changed if we rid ourselves of our sympathies.

Just as I said before, there is the potential of great change to our world from the speed of technological evolution and innovation. In other words, this means that there is the potential for our lives to change greatly. For example, the Mobility-as-a-Service (MaaS) initiative may overthrow the foundation of the concepts of transportation and

location, something we have come to think of as a given. When this happens, will we still be separated by long distances that take a long time to cover? How will the roles of tourist attractions and resorts change? I wonder how much the roles held by tourist attractions and resorts will change. A time may be coming when robots take over our jobs and we don't need to work at all. When that time comes, I wonder if we will continue to pursue job satisfaction, sensing meaning and allure from working.

When visualizing this future, I think what we will pursue is the humanity and creativity that is felt and the joy that is shared – something that we already have. From here on, we are in the times when emotions are valued, a time when a society in which each person strives for self-fulfillment is trying to take hold. I wonder how emotional satisfaction that will come from Play Styles time through rich experiences and time will change economic value when each individual attempts to pursue their self-fulfillment through their own values. I feel that it is necessary for future management to properly confront this.

If you go out in Shibuya, you will encounter many diverse people. Young and old, businesspersons and street performers. There are no other places with this kind of diversity. Many chances to create and propose new lifestyles have fallen into our hands as we built our home base here in Shibuya. We ourselves have practiced new Work Styles from Shibuya and spread the cycle of interaction outside the Company, and I want us to become a professional group that values unseen value – that is, humanity. In the end, our way of living itself will create new lifestyles. I want to offer this situation as a dream for our Group.

*1. Includes temporary employees

*2. VUCA: Volatility, Uncertainty, Complexity, and Ambiguity, referring to an unpredictable socio-economic environment.

*3. Singularity: refers to a technological singularity or the changes to the world brought about by this transformation. Ray Kurzweil, an American futurist, predicts that AI will exponentially evolve, reaching a technological singularity where human intelligence and AI are reversed by 2045.

*4. Society 5.0: The 5th new society in human history, as advocated by The 5th Science and Technology Basic Plan. It refers to an incredibly smart society where new values and services are created one after another following the 4th industrial revolution.